

Wichita Water Utilities Rate Structure Alternatives

City Council Workshop
July 14, 2009



Background

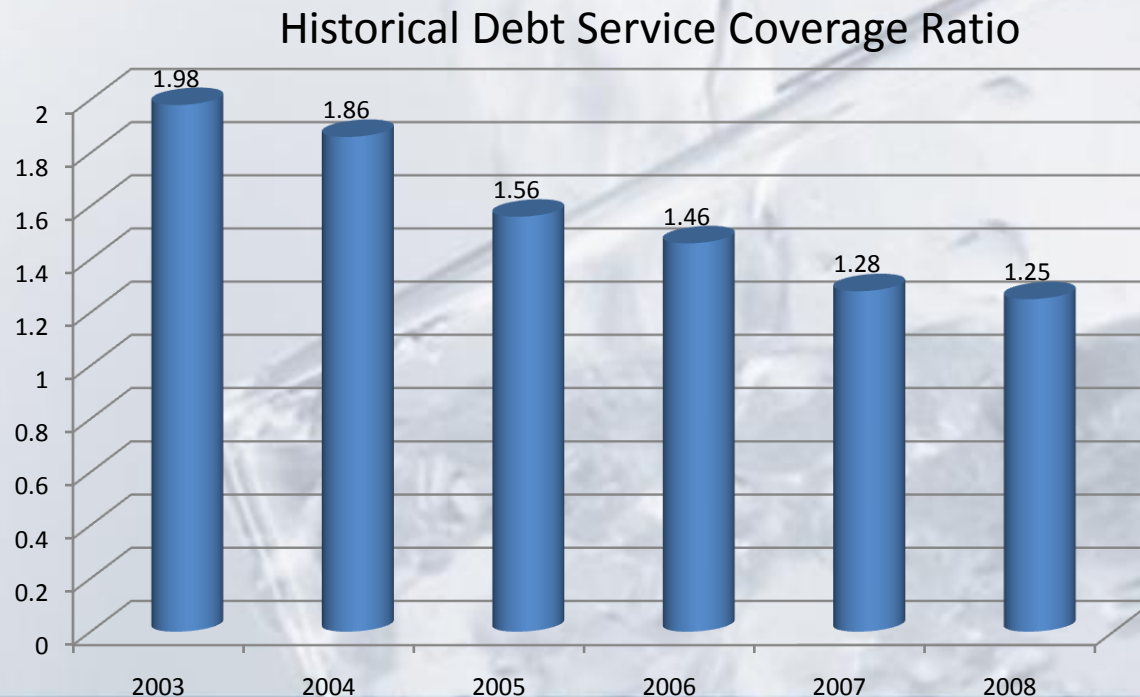
- Despite growth in the system, average daily pumpage has continued to decline over the last few years.
- Through June 2009, water pumpage was less than originally projected. As a result, staff lowered projected water sales and resulting revenues for 2009.

Historical Average Daily Pumpage



Background

- In June 2009, Water Utilities sold \$130 million of revenue bonds to partially pay for ASR Phase II and other needed improvements. The ASR project was funded with back-loaded debt financing.
- Water Utilities' bond rating by Standard & Poor's was maintained at AA- but a "negative outlook" was assigned to the rating in June 2009 due to the Utilities' declining DSCR.



Bond Covenant Requirements

The City is legally required by bond covenants to produce Net Revenues Available for Debt Service each year equal to not less than 120% of the current year's Debt Service Requirements (1.2 DSCR).

Failure to meet the 1.2 DSCR would result in legal default of the bond covenants and require legal notification to all bondholders and underwriters, the Securities and Exchange Commission (SEC), the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) and the Municipal Securities Rule Making Board (MSRMB).

Cheney Reservoir: Example of Previous City of Wichita Back-Loading of Debt

- Original contract of \$18.3 million was for the federal government to construct Cheney reservoir.
- The Federal monies were to pay for flood control, conservation of fish and wildlife, recreation facilities and wildlife facilities.
- The City repay was \$7.3 million for the water supply portion (not including interest), which was less than the \$9.4 million authorized in the election in 1956.
- City pay-back was an "ascending curve" rather than flat payments, to allow higher payments in the future when water revenues increased with consumption and to allow for intergenerational equity.
- Payments would begin at \$192,500, increasing to a maximum of \$379,300 in the 40th year. The debt was paid between 1965 and 2005.
- The first water pumped from Cheney reservoir was June 28, 1965.
- Cheney Reservoir normally provides 60% of the City's water supply.

Bond Rating Analysis

- A “negative outlook” on the bond rating signals a downgrade in the rating at the next bond issuance unless the Utilities’ financial outlook improves.
- The interest rate difference between an AA- and A rated bond issue is dependent on market conditions. On April 6th, the difference was approximately 150 basis points, and on July 6th, the difference was approximately 100 basis points.
- Revenue bonds in the amount of \$169 million must be issued in 2010 to continue ASR Phase II and other essential improvements.
- An increase of 100 basis points on \$169 million bond issuance would result in an increased interest cost of \$39 million (Springsted, Inc., Financial Advisor).

Rating Agency Criteria

Standard & Poor's Key Rating Factor Concerns

- Economic Considerations – City of Wichita's manufacturing base has declined substantially since 2007. S&P viewed the lack of diversity among the City's largest employers – not the Utilities' largest water consumers – during their rating review. Therefore, layoffs in the aircraft industry had a more significant impact on the negative economic outlook.
- Financial Data/Capital Improvement Plan – Capital needs in excess of \$2.4 billion for CIP years 2009 - 2018 “centered on the long-term water supply” which may result in the need for increasing rate structures over the next several years.
- Rate Criteria – With additional debt, the DSCR will be challenged to move back to levels commensurate with the rating of AA-.

Rating Agency Criteria

Standard & Poor's Key Rating Factor Strengths

- Operational Characteristics – WWU had a low debt to total asset ratio (35.4%) and maintained an unrestricted cash reserve of 74 days of operating expenses in 2008. (Goal is 60 days)
- Management & Legal Provisions – The Wichita City Council has demonstrated a commitment to adjust water and sewer rates as necessary to maintain appropriate debt service coverage.

Budget Reduction Details

Detail of WWU HOLD on Open Positions					
Div.	Class	Job Title	2009	2010	2011
CS	623	Admin Aide II			
CS	620	Special Water Service Rep			
CS	620	Special Water Services Reps - FT			
CS	620	Special Water Services Reps - PT			
CS	620	Special Water Services Reps - PT			
CS	620	Water Line Technician			
PP	621	Electrician I			
PP	620	Laboratory Technician			
PP	621	Maintenance Mechanic			
PP	617	Maintenance Worker			
SM	617	Equipment Operator I			
SM	620	Equipment Operator III			
SM	616	Laborer			
SM	616	Laborer			
SP	C43	Civil Engineer			
ST	623	Electrician II			
ST	C42	General Maintenance Supervisor I			
ST	616	Laborer			
ST	622	Plant Operator			
WD	617	Equipment Operator I			
Total HOLD on Open Positions - 20 People - (19 FTEs)			\$824,137	\$977,870	\$979,439

Budget Reduction Details

Detail of WWU Proposed Position Lay Off List					
Div.	Class	Job Title	2009	2010	2011
Adm	D72	Asst Department Director			
Adm	C41	Communication Specialist			
CS	619	Account Clerk II			
CS	617	Customer Service Clerk I			
CS	619	Customer Service Clerk II			
CS	C43	Senior Fiscal Analyst			
PP	615	Custodial Worker I			
PP	617	Custodial Worker II			
SM	617	Equipment Operator I			
SM	616	Laborer			
ST	615	Clerk II			
ST	615	Custodial Worker I			
ST	617	Custodial Worker II			
ST	617	Custodial Worker II			
ST	C41	Environmental Scientist			
ST	C41	Environmental Scientist (Laboratory)			
ST	C41	Environmental Services Specialist			
ST	C41	Environmental Services Specialists			
ST	621	Maintenance Mechanic			
Total Proposed LAYOFF Positions - 19 People			\$296,841	\$915,190	\$915,190

Budget Reduction Details

Postponed Capital Outlay Expenditures			
Capital Outlay	Postponed From Year:		
	2009	2010	2011
Equipment (Office, maintenance, construction, pumps, filters)	563,500	539,490	199,500
Improvements (Land & Bldg) (Counters, Painting, Office equipment, roof repair, roadways)	777,500	185,000	-
Trucks/Vans/Loaders/Backhoes (7 backhoes/pay loaders/excavators, 23 trucks, 10 vans)	1,687,400	445,400	1,019,700
Total Capital Outlay Postponed	\$3,028,400	\$1,169,890	\$1,219,200

Budget Reduction Details

Postponed O&M Expenditures			
Other O&M Expenditures	Postponed From Year:		
	2009	2010	2011
Reduce Syndeo Contract Services	44,600		
Limit Installation contracts	80,000		
Reduction in cost of Polymer chemicals	104,000		
Eliminate Root Control Treatments	100,000		
Hess Mag Breakers/Radio Control/Fountain	16,000	38,500	8,500
Cheney Dam Walkway Painting		100,000	
Wellfield Office Maintenance		39,000	
WTP Ceiling Painting		175,000	
Kansas One Call Fees Notification	41,500	82,500	82,500
Odor and Corrosion Control	215,000	430,000	430,000
Additional Polymer Reductions	39,000	79,000	79,000
Generator repairs	19,000	38,000	38,000
Biosolids Hauling – contracted	50,000	50,000	50,000
Water Service installations	400,000	400,000	400,000
Dirt and paving cuts	75,800	200,000	200,000
ASR Ph 1 - Temporary Shut Down	50,000	171,000	171,000
(Replacement pump and chemicals)			
Other O&M Expenditures	248,176	632,352	470,352
(Materials, supplies, contractals, professional services, commodities)			
Total Other O&M Expenditures	\$1,483,076	\$2,435,352	\$1,929,352

Capital Improvement Program Delay

Postponed Capital Improvement Projects			
CIP Projects	Postponed From Year:		
	2009	2010	2011
<u>Water Projects:</u>			
13th across K-96		500,000	
159th, Lincoln to Harry		200,000	950,000
Total Water Projects	0	700,000	950,000
<u>Sewer Projects:</u>			
Kellogg & Webb Relocations	800,000	500,000	
		(800,000)	(500,000)
20" Parallel PS56 to TP3	100,000	2,900,000	
Replace Lift Station # 5451-LS03	250,000		
Replace Lift Station # 5350-LS04		750,000	
Replace Lift Station # 5344-LS06			750,000
Plant # 2 Nutrient Removal			4,000,000
Total Sewer Projects	1,150,000	3,350,000	4,250,000
Total Water & Sewer Projects	\$1,150,000	\$4,050,000	\$5,200,000

Analysis

- Water Utilities can improve its debt-service coverage ratio in 2010 with the planned reductions, the \$2 future water supply surcharge beginning August 1, 2009, and the currently planned 5% rate increases.
- Without additional revenues in 2010 from rate increases or other sources, the debt-service coverage ratio at the end of 2010 would be below the 1.2 minimum required.

Rate Structure Alternatives

All options presented include budget reductions in operating and capital expenses in 2009, 2010 and 2011.

(Projected DSCR Without A Rate Increase In 2010)

	2009 revised budget	2010 projected budget	2011 projected budget	2012 projected budget	2013 projected budget	2014 projected budget	2015 projected budget
Revenues	\$92.4	\$93.8	\$102.2	\$110.9	\$117.4	\$124.1	\$131.2
Expenditures	86.6	102.3	106.0	116.1	119.1	124.8	131.4
Budgeted income/loss	5.8	(8.5)	(3.8)	(5.2)	(1.7)	(0.7)	(0.2)
Debt-service coverage ratio	1.50	1.08	1.17	1.14	1.20	1.21	1.20
Rate Increase	8%*	0%	8%	8%	5%	5%	5%

Rate Structure Alternatives

Proposed: Increase water and sewer volume charges by 5% each through 2013 and \$2 future water supply surcharge beginning August 1, 2009.

PROPOSED: Assume Jan 10 5% W&S & Aug 09 \$2 W&S (Incl Addtnl 06/23/09 Reductions) - **CONSUMPTION @ 59.5 MGD** beginning 2010. Following years include a 1.5% Growth Factor.

BUDGET	Projected Budgets (in Million \$)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues	93.8	102.1	111.6	121.2	131.4	139.6	148.2	155.5	160.9	166.3
Expenditures	86.6	102.3	106.0	116.6	119.6	125.4	132.2	138.2	138.9	140.4
Budgeted Income/Loss	7.2	(0.2)	5.5	4.6	11.8	14.2	16.0	17.2	22.0	26.0
DSCR @ Jan 1, Next YR	1.54	1.27	1.38	1.34	1.46	1.48	1.47	1.46	1.54	1.60
Sewer Revenue Adj	8%	5%	5%	5%	5%	3%	3%	2%	0%	0%
Water Revenue Adj	0%	5%	5%	5%	5%	3%	3%	2%	0%	0%

Rate Structure Alternatives

Worst Case Scenario – Low consumption: Increase water and sewer volume charges by 14% in 2010, 5% through 2013 and \$2 future water supply surcharge beginning August 1, 2009.

WORST CASE: Assume Jan 10 5% W&S & Aug 09 \$2 W&S (Incl Addtnl 06/23/09 Reductions) - **LOW CONSUMPTION @ 52 MGD** beginning 2010. Following years include a 1.5% Growth Factor.
NOTE: 2010 @ 5% resulted in a 1.13 DSCR.

BUDGET	Projected Budgets (in Million \$)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues	93.8	102.8	112.3	121.9	132.0	140.2	148.7	156.0	161.4	167.0
Expenditures	86.6	102.3	106.0	116.6	119.6	125.5	132.2	138.3	138.9	140.4
Budgeted Income/Loss	7.2	0.5	6.2	5.3	12.4	14.8	16.5	17.7	22.5	26.5
DSCR @ Jan 1, Next YR	1.54	1.29	1.39	1.35	1.48	1.49	1.47	1.46	1.55	1.61
Sewer Revenue Adj	8%	14%	5%	5%	5%	3%	3%	2%	0%	0%
Water Revenue Adj	0%	14%	5%	5%	5%	3%	3%	2%	0%	0%

Rate Structure Alternatives

Best Case Scenario – High consumption: Increase water and sewer volume charges by 5% through 2013 and \$2 future water supply surcharge beginning August 1, 2009.

BEST CASE: Assume Jan10 5% W&S & Aug09 \$2 W&S (Incl Addtnl 06/23/09 Reductions) – HIGH CONSUMPTION @ 64 MGD beginning 2010. Following years include a 1.5% Growth Factor.										
BUDGET	Projected Budgets (in Million \$)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues	93.8	105.4	115.1	124.9	135.3	143.7	152.4	159.9	165.3	170.8
Expenditures	86.6	102.3	106.0	116.8	119.8	125.6	132.4	138.5	139.1	140.6
Budgeted Income/Loss	7.2	3.1	9.0	8.2	15.6	18.1	20.0	21.4	26.2	30.2
DSCR @ Jan 1, Next YR	1.54	1.35	1.45	1.41	1.54	1.55	1.53	1.52	1.60	1.67
Sewer Revenue Adj	8%	5%	5%	5%	5%	3%	3%	2%	0%	0%
Water Revenue Adj	0%	5%	5%	5%	5%	3%	3%	2%	0%	0%

Rate Structure Alternatives

Block One Rate Increase Proposal: Increase Block One rate structure for all users to capture annual budget shortage.

$$\begin{array}{rcl}
 20,000,000 & \text{Annual Water Sales} & (\text{Thousands of Gallons}) \\
 \times 76\% & \text{Block One Percent of Sales} & \\
 \hline
 15,200,000 & \text{Block One Sales} & (\text{Thousands of Gallons}) \\
 \times \$0.21 & \text{Proposed Increase} & \\
 \hline
 \$3,240,000 & \text{Net Revenue} &
 \end{array}$$

- Increases Block One rate by \$0.21, from \$1.17 to \$1.38
- 130,948 accounts have an AWC of less than 10,000 gallons

AWC (gals)	Block One Rate Increase	Monthly Increase	Annual Increase
3,000	\$0.21	\$0.63	\$7.56
4,000	\$0.21	\$0.84	\$10.08
5,000	\$0.21	\$1.05	\$12.60
6,000 *	\$0.21	\$1.26	\$15.12
7,000	\$0.21	\$1.47	\$17.64
7,500 **	\$0.21	\$1.58	\$18.96
8,000	\$0.21	\$1.68	\$20.16
9,000	\$0.21	\$1.89	\$22.68
10,000	\$0.21	\$2.10	\$25.20

* Average monthly consumption for residential household

** AWWA average monthly consumption for residential household

Rate Structure Alternatives

Block One Rate Increase Proposal: Increase Block One rate structure for all users to capture annual budget shortage.

20,000,000	Annual Water Sales	(Thousands of Gallons)
x 76%	Block One Percent of Sales	
15,200,000	Block One Sales	(Thousands of Gallons)
x \$0.21	Proposed Increase	
\$3,240,000	Net Revenue	

- Increases Block One rate by \$0.21, from \$1.17 to \$1.38
- 13,830 accounts have an AWC of more than 10,000 gallons

Customer	Block One Rate Increase	Monthly Increase	Annual Increase
Spirit Aerospace	\$0.21	\$7,198	\$86,370
Hawker Beechcraft	\$0.21	\$2,614	\$31,363
Cargill	\$0.21	\$2,067	\$24,808
Farmland	\$0.21	\$1,942	\$23,304
Wesley Hospital	\$0.21	\$1,000	\$12,008
Via Christi – St. Francis Hospital	\$0.21	\$757	\$9,085
Koch Industries	\$0.21	\$432	\$5,183
Wichita State University	\$0.21	\$82	\$978

Water Utilities' Recommendation

Implement a future water supply surcharge of \$2 per month effective August 1, 2009, to create a stable \$3.2 million annual revenue, and continue annual, moderate volume charge increases.

Recommendation Results

- Improved debt-service coverage ratio and protection of borrowing rates.
- Continued replacement and renewal of aging infrastructure to improve quality of life and neighborhoods.
- Continued efforts to develop future water supply, ensure ability to attract businesses and industry, and retain and grow jobs.